

BOARD OF DIRECTORS (OPEN)

AGENDA ITEM 11

ATTACHMENT 11-II

APPROVAL of JULY 8 - 9, 2010 OPEN MEETING MINUTES

PRESENTED BY: Jeanne Cain

August 19, 2010

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

July 8-9, 2010

The Board of Directors of State Compensation Insurance Fund met on July 8, 2010 and July 9, 2010 in the Milton Marks Conference Center, State Building, 455 Golden Gate Avenue, San Francisco, California.

July 8, 2010

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on July 8 at 12:15 p.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Donald E. Garcia; Sen. Michael J. Machado (Ret.); Lawrence Mulryan; Francis E. Quinlan; Thomas Rankin; James S. Richardson; and William Zachry. Absent: Daniel Curtin; Steven L. Rank and non-voting member John. C. Duncan.

There was a quorum.

Also present: Interim President and CEO Doug Stewart; Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; Chief Information Officer Shaun Coyne; Executive Vice President and Chief Actuary James Neary; General Counsel and Corporate Secretary Carol Newman; and Deputy Chief Counsel and Assistant Corporate Secretary Judith Sapper.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain called attention to and requested the Board members read State Fund's Antitrust Admonition which is included in each Board member's meeting materials.

AGENDA ITEM 3: PUBLIC COMMENTS ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 5 THROUGH 10 ON JULY 8 AND ITEMS 11 THROUGH 13 ON JULY 9.

Ms. Cain requested public comment of which there was none. Ms. Cain closed the Open Session. The meeting convened into Closed Session at 12:20 p.m. and reconvened at 1:25 p.m. on July 9, 2010 into Open Session.

JULY 9, 2010

AGENDA ITEM 14: CALL TO ORDER AND ROLL CALL

The meeting was called to order on July 9, 2010 at 1:25 p.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Sen. Michael Machado (Ret.); Lawrence Mulryan; Francis E. Quinlan; Thomas Rankin; James S. Richardson; and William Zachry.. Absent: (by prior arrangement) Daniel Curtin; Donald E. Garcia; Steven L. Rank; and non-voting member John. C. Duncan.

There was a quorum.

Also present: Interim President and CEO Doug Stewart; Chief Financial Officer Jay Stewart; General Counsel and Corporate Secretary Carol Newman; and Deputy Chief Counsel and Assistant Corporate Secretary Judith Sapper.

AGENDA ITEM 15: CONSENT CALENDAR

Ms. Cain referred to the Consent Calendar matters which are included with each member's agenda noting particularly the approval of the May 20-21, 2010 Open Meeting Minutes, Board Member Training Opportunities and Approval of Planned Board Member Training, renewal of expiring 3rd Quarter insurance policies and recognition of retiring employees attached hereto and incorporated as part of these Minutes:

Resolution No. 920 in appreciation of Brian E. Wright, thanking him for serving State Fund with distinction for more than 35 years;
Resolution No. 921 in appreciation of Ronald P. Anticevich, thanking him for serving State Fund with distinction for more than 32 years;
Resolution No. 922 in appreciation of Jane C. Balandra, thanking her for serving State Fund with distinction for more than 39 years;
Resolution No. 923 in appreciation of Susan Black, thanking her for serving State Fund with distinction for more than 35 years;
Resolution No. 924 in appreciation of Stephen G. Mackey, thanking him for serving State Fund with distinction for more than 36 years;
Resolution No. 925 in appreciation of Mieko Oiwa, thanking her for serving State Fund with distinction for more than 37 years;
Resolution No. 926 in appreciation of Peggy Womble, thanking her for serving State Fund with distinction for more than 31 years;
Resolution No. 927 in appreciation of Aurora G. Edora, thanking her for serving State Fund with distinction for more than 30 years;
Resolution No. 928 in appreciation of Paula L. Mosher, thanking her for serving State Fund with distinction for more than 32 years.

Ms. Cain requested whether any Board member had any additional comments on the items on the Consent Calendar of which there were none.

MOTION: Mr. Richardson Second: Mr. Rankin

To approve the Consent Calendar as presented.

Ms. Cain requested public comments of which there were none. Ms. Cain called for the vote.

AYES: 8 NOES: 0 Motion carried.

AGENDA ITEM 16: PEER ANALYSIS ON 2009 INVESTMENT RESULTS

This item was deferred to a future agenda in the interests of time.

AGENDA ITEM 17: FINANCIAL UPDATE 2nd QUARTER 2010 FORECAST

This item was deferred to a future agenda in the interests of time.

AGENDA ITEM 18: U.S. ECONOMIC OUTLOOK/IMPACT ON CALIFORNIA

This item was deferred to a future agenda in the interests of time.

AGENDA ITEM 19a-b: RATIFICATION OF INVESTMENT TRANSACTIONS

State Fund Treasury Manager Stephanie Chan recommended the ratification of investment transactions from April 1, 2010 to May 31, 2010. Investment transactions for the period were made in conformance with State Fund's Investment policy at the time of purchase. During the months of April and May, State Fund purchased 21 securities totaling \$326.8M. During this same time period, State Fund sold 1 security at \$10M. Year-to-date through May 31, 2010, State Fund has booked a net capital gain of approximately \$4.2M. The book value of State Fund's portfolio as of May 31, 2010 was approximately \$19.3B with a market value of \$20.2B.

MOTION: Sen. Machado (Ret.) Second: Mr. Mulryan

To ratify the investment transactions from April 1, 2010 to May 31, 2010.

Ms. Cain requested public comments of which there were none. Ms. Cain called for the vote.

AYES: 8 NOES: 0 Motion carried.

Ms. Chan presented the Compliance Report which includes securities whose credit ratings fell below the "A" credit rating required at the time of purchase. There is a Taxable Municipal, Rancho Cucamonga California Redevelopment,

totaling approximately \$14.3M whose credit rating met State Fund's investment guidelines at the time of purchase but which has now fallen below the minimum single 'A' credit rating. There is also one Taxable Municipal Issuer, Southern California Public Power Authority, which exceeded State Fund's "Per Issuer" limit of 0.5%. This bond was in compliance with the Investment Policy at the time of purchase since the Per Issuer limit for Taxable Municipals was implemented after this bond was purchased. One of State Fund's Oregon State bond holdings totaling \$25M is not rated, but the state of Oregon is rated AAa2/AA. At the end of May 2010, the total value of the securities listed on the Compliance Report is approximately \$139M which represents less than 1% of State Fund's total investments.

MOTION: Sen. Machado (Ret.) Second: Ms. Chalupa

To ratify the compliance report for the period April 1, 2010 to May 31, 2010.

Ms. Cain requested public comments of which there were none. Ms. Cain called for the vote.

AYES: 8 NOES: 0 Motion carried.

AGENDA ITEM 20: PRESIDENT'S REPORT

Doug Stewart, Interim President and CEO, reported that State Fund continued to strengthen its financial position. State Fund has also made progress in strengthening its internal controls and integrity in reporting processes for compliance with the NAIC's Model Audit Rule (MAR). Mr. Stewart noted improvements to State Fund's governance, risk management and compliance through implementing risk enterprise practices, establishing a "tone from the top", and identification and audit of risks to the organization. State Fund's Human Resources Department has facilitated employee performance through timely appraisals, performance plans, individual development plans, employee recognition and engagement, and workforce planning. State Fund's upcoming Annual Report will feature five employees exemplifying the efforts of the entire State Fund workforce in maintaining California's workers' compensation system.

AGENDA ITEM 21: REPORT ON LEAVE ACCRUALS

This item was deferred to a future agenda in the interests of time.

AGENDA ITEM 22a: AUDIT COMMITTEE UPDATE (i) UPDATE ON MODEL AUDIT RULE (ORAL)

Mr. Quinlan provided an Audit Committee update. State Fund continues to make progress on the NAIC Model Audit Rule (MAR) and is capable of being a leader in the implementation of MAR. Ms. Cain requested public comments of which there were none.

AGENDA ITEM 22a: AUDIT COMMITTEE UPDATE (ii) UPDATE ON ENTERPRISE RISK MANAGEMENT CONTROLS (ORAL)

Mr. Quinlan reported State Fund has made a good start on the Enterprise Risk Management (ERM) process and will implement ERM to manage risks. He provided an update on several audits. State Fund received anonymous letters alleging antitrust violations as well as contracting and licensing issues involving the transportation firm within the Combination Network introduced in April 2010. Internal Audit could not substantiate any of the allegations. Nevertheless, State Fund will monitor the hired drivers closely to ensure compliance with the laws and State Fund's contract. Mr. Quinlan reported State Fund has an excellent business continuity plan and will be updating its business impact analysis and making it available electronically. An audit of the distribution of pay warrants showed the distribution controls were adequate but there were issues about segregation of duties to watch. Credit & Collections needs to update its manual on processing incoming checks. Internal Audit and Human Resources are reviewing an audit of theft of time by two attorneys in Fresno who did not report their leave credits usage. Ms. Cain requested public comments of which there were none.

AGENDA ITEM 22a: AUDIT COMMITTEE UPDATE (iii) UPDATE ON CLOSED AUDIT REPORT (ORAL)

Mr. Quinlan provided an update on the closed audit reports. State Fund's audit of its fleet showed management controls are in place for the assignment and use of vehicles and monitoring of gasoline purchases, but a new Fleet Policy is being introduced that will require new and different controls. The California Department of Insurance is largely pleased with State Fund's responses to the Operational Review and the audit is coming to a close. Ms. Cain requested public comments of which there were none.

AGENDA ITEM 22b: GOVERNANCE COMMITTEE UPDATE (i) BOARD EVALUATIONS (ORAL)

Ms. Cain reported the Board evaluation forms have been sent to the members and she emphasized the importance of responses to questions on training needs. Individual interviews to discuss the evaluation responses will begin soon. Ms. Cain requested public comments of which there were none.

AGENDA ITEM 22b: GOVERNANCE COMMITTEE UPDATE (ii) UPDATE ON AWARD RECOGNITION PROGRAM (ORAL)

Ms. Cain reported the Governance Committee discussed and had questions on State Fund's Employee Award and Recognition Program and requested additional information. Ms. Cain requested public comments of which there were none.

AGENDA ITEM 22b: GOVERNANCE COMMITTEE UPDATE (iii) UPDATE ON BOARD/MANAGEMENT OCTOBER STRATEGIC PLANNING MEETING (ORAL)

Ms. Cain reported topics to be considered for the Strategic Planning Meeting agenda will be submitted and that the Governance Committee recommended arranging for outside presenters. Ms. Cain requested public comments of which there were none.

AGENDA ITEM 22c: INVESTMENT COMMITTEE UPDATE (i) PORTFOLIO RESULTS (ORAL)

Sen. Michael Machado provided an Investment Committee update. Sen. Machado reported on the Asset Management Report and the performance of the two Portfolio Managers and their ongoing investment strategy. The Investment Committee requested agenda items be added to the September meeting for a presentation by Investment Manager NEAM, a report on the impact of state legislation on State Fund's investment strategy, the effect of federal banking legislation on State Fund's portfolio, and how investment strategy and yield affect State Fund. Ms. Cain requested public comments of which there were none.

AGENDA ITEM 23: REVIEW AND RECOMMENDATION ON BOARD TRAINING

This item was deferred to a future agenda in the interests of time.

AGENDA ITEM 24: CHAIR'S REPORT

Ms. Cain reported the national search for the State Fund President and CEO was not yet finished but was expected to be completed soon. Ms. Cain requested public comments of which there were none.

AGENDA ITEM 25: BOARD MEMBER REPORTS

Ms. Cain requested Board member reports of which there were none. Ms. Cain requested public comments of which there were none.

**AGENDA ITEM 26: PROPOSALS AND SUGGESTIONS FOR SEPTEMBER
2010 AGENDA**

Ms. Cain requested Board members review dates for a July or August Closed Board meeting to discuss deferred agenda items on State Contracts and Group Business. In addition to the standing agenda items for the September meeting, Ms. Cain requested presentations on insurance and reinsurance, Alternative Dispute Resolution (ADR), and Underwriting Operations. Ms. Cain requested public comments of which there were none.

AGENDA ITEM 27: PUBLIC COMMENT

Ms. Cain requested public comments of which there were none.

ADJOURNMENT

There being no further business, Chair Cain adjourned the meeting at 1:50 p.m.

The next Board meeting will begin on Thursday, August 19, 2010 at 10:00 a.m. at the Milton Marks Conference Center, 455 Golden Gate Ave, San Francisco.

Respectfully submitted,

Judith D. Sapper
Assistant Corporate Secretary